

AR47

Payrock
Mines
LIMITED

ANNUAL REPORT

1977



RAYROCK MINES LIMITED

DIRECTORS

J. C. BYRNE, Toronto
President and Managing Director of Discovery Mines Limited

C. M. EVANS, Calgary
Senior Vice-President, Ashland Oil Canada Limited

H. EARL JOUDRIE, Ashland, Kentucky
Senior Vice-President, Ashland Oil, Inc.

J. J. RANKIN, Toronto
President and Managing Director, Pominex Limited

G. T. SMITH, Toronto
President, Camflo Mines Limited

H. J. WHELAN, Toronto
President, The Lummus Company Canada Limited

W. J. WHELAN, Calgary
Executive Vice-President, Ashland Oil Canada Limited

OFFICERS

J. C. BYRNE
President and Managing Director

H. EARL JOUDRIE
Vice-President

D. R. CROMBIE
Vice-President, Operations

W. STEUERMAN
Secretary-Treasurer

EXECUTIVE ENGINEER

L. A. BEDNARZ

SENIOR GEOLOGIST

T. ANTONIUK

EXECUTIVE OFFICE

Suite 1011, 2200 Yonge Street, Toronto, Canada

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY, Toronto

BANKERS

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

AUDITORS

COOPERS & LYBRAND, Toronto

SOLICITORS

CAMPBELL, GODFREY & LEWTAS, Toronto

ANNUAL MEETING

May 18, 1978, 10:00 a.m., Lancaster Room
Hyatt Regency Hotel (now Four Seasons, Toronto), Toronto

RAYROCK MINES LIMITED

375,000

Directors' Report to the Shareholders:

Highlights of 1977 included improved earnings, cash flow and working capital, additional oil and gas participations and a new silver-lead-zinc mining venture. This year promises to be an exciting one for your Company. A budget of \$800,000 plus will provide Rayrock with an overall exposure in exploration and development projects totalling \$17,500,000. Participation in oil and gas ventures include projects in Alberta, British Columbia and Montana. Mining exploration joint ventures are in Canada, United States and Spain.

Improved earnings and cash flow were due primarily to increases in petroleum revenues and investment income. Cash flow of \$585,817 or \$0.13 per share, represented a 55 per cent increase, and working capital was \$1,421,825 at year end. Investments, at cost, and advances totalled \$2,804,277.

Through a joint venture operated by Signalta Resources, Rayrock has earned an interest in several successful gas completions in central Alberta. Another joint venture, that managed by Renaissance Resources, has reported a gas discovery in the early stages of a \$2.7 million oil and gas exploration project to be concentrated in Alberta and British Columbia. Rayrock is also participating in a major oil exploration search in northeastern Montana and parts of North Dakota; operator is Orbit Oil & Gas, Inc.

The Company's Ontario petroleum operations recorded a satisfactory year providing net operating revenue of \$698,314 from its three waterflood units. Additional revenues were derived from interests in producing oil fields in Ontario and Western Canada, and from Alberta gas production through a 1975 joint venture managed by Canadian Oil & Gas Fund.

The Rayrock-Ryowa Joint Venture's search for uranium in the Northwest Territories will again be your Company's principal Canadian mineral exploration involvement. Following on last year's regional program, six specific areas have been selected for detailed investigation. Rayrock, as manager, is funding 25 per cent of the \$300,000 exploration budget to earn a 35 per cent equity, while the Ryowa Uranium Development Corporation of Japan is contributing the balance.

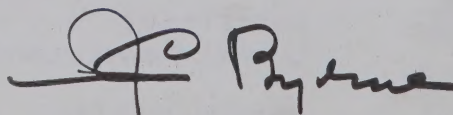
Our foreign exploration exposure is through a 25 per cent participation in each of two syndicates, namely Cordex conducting specific and general programs in the western United States, and the Iberian Explorations Syndicate which is undertaking a comprehensive evaluation of large concession areas of approximately 300,000 acres in southern Spain that were the scene of very substantial silver and lead production prior to the First World War.

Of growing economic importance is the 20 per cent owned Pinson gold property in Nevada. An update of an earlier production feasibility study is probable in the light of improved bullion prices. Reserves amenable to open pit extraction are 1.75 million tons averaging 0.15 ounces gold per ton.

A proposal has been accepted from a major American mining company for exploration of the Rayrock-Redstone holdings in Wisconsin.

At the forthcoming Annual Meeting the Shareholders will be asked to approve a proposed change in company name to Rayrock Resources Limited. The new identity will better reflect the nature and diversity of our business.

On behalf of the Board,



President and Managing Director

Toronto, Canada
April 14, 1978

RAYROCK MINES LIMITED

OIL AND GAS

RODNEY AND GOBLES FIELDS

Rayrock's three waterflood operations in southwestern Ontario produced 125,071 barrels of oil in 1977 and compares with 134,953 barrels recovered in the previous year. The two units of the Rodney Field contributed three quarters of total production while the Gobles Field accounted for the balance.

WILLEY FIELD INTEREST

Rayrock's net revenue from the Willey Field in Ontario was \$45,000. Your Company's interest is 10.68 per cent in the waterflood field operated by I.U. Petroleum Corporation.

REDWATER D-3 POOL INTEREST

Rayrock has had a long standing, albeit modest, interest in the Redwater oil field situated north of Edmonton, Alberta. Net revenue in 1977 from this producer was \$32,000.

CANADIAN OIL & GAS FUND (1975) JOINT VENTURE

This joint venture reported an increase in gas output as additional development wells were brought on stream.

Rayrock's share of gross production was 120,000 MCF (thousands of cubic feet) from which our operating income was \$56,000. The Company advanced approximately \$75,000 toward the cost of an infill drilling program on the West Hilda Project. Our investment in the joint venture over the past three years is \$500,000 some of which has been satisfied by bank loans.

Formed in 1975 the joint venture has interests in several producing and semi-developed gas properties in southeastern Alberta. Due to the current excess gas supply situation, there will be some continuing restriction on optimum gas sales.

RENAISSANCE RESOURCES (1978) JOINT VENTURE

During 1978 Rayrock will be contributing \$225,000 toward an oil and gas exploration venture managed by Renaissance Resources Ltd., of Calgary. Our net interest in the \$2.7 million project is 6.7 per cent. The Joint Venture fund will be used to acquire petroleum rights in Alberta and British Columbia either by direct purchase or by initiating or participating in geophysical and drilling activities.

Early this year a successful gas well was completed under a farm-in arrangement whereunder a 50 per cent interest has been earned in three sections located 90 miles northeast of Calgary. The completion tested gas at 1500 MCF/day from a 10 foot pay section.

Some 100 miles south of Calgary drilling has commenced for gas under a farm-in consisting of four commitment wells and options on approximately 19,000 acres.

An 8.0 per cent interest has been acquired in a 12,160 acre joint venture southwest of the Swan Hills oil field in central Alberta. A 10,000 foot well will be drilled on the property in late June. Current seismic coverage indicates excellent potential for oil production from D-2 and Swan Hills reefs and secondary potential for gas production from the Cretaceous, Notikewin and Cambrian Sands.

Renaissance in association with partners has acquired interests in the Amish, East Warwick and Whitford Lake prospects in Alberta and in the North Tsea prospect in British Columbia.

NORTHEAST MONTANA PROJECT

Rayrock is participating in an oil exploration venture known as the Northeast Montana Project. The general area of interest is the northeast Montana portion of the Williston Basin, and parts of southern Saskatchewan and North Dakota.

The exploration budget, which may eventually be expanded, calls for the expenditure of \$2.5 million

RAYROCK MINES LIMITED

over an eighteen-month period. Efforts to date have been essentially on seismic surveys, geological studies, and land acquisition including farm-in arrangements. Drilling of promising targets should commence by mid-year.

Rayrock's contributing interest is 6.67 per cent, while working interest after pay-out is 5.0 per cent.

The operator of the project is Orbit Oil & Gas, Inc. of Tyler, Texas.

SIGNALTA JOINT VENTURE

During the past year your Company invested \$150,000 to earn a 15 per cent working interest in a ten-well drill program for natural gas in central Alberta. Signalta Resources Limited of Calgary is the operator of the project.

Of seven exploratory tests completed to date, four are prospective producers. Preliminary reserves attributable to the successful completions are 6 million MCF (6 BCF).

MINING

CORDEX SYNDICATE

The Cordex Syndicate concentrated its 1977 exploration in the states of Nevada, Arizona, Idaho, and Oregon; this again will be the case in 1978.

On the Nevada-Oregon boundary a uranium prospect has been leased and adjoining ground staked. A rotary drilling program will commence early this year to investigate a known area of uranium mineralization.

In Arizona property has been staked and optioned covering a complex geological environment favourable for both copper and gold occurrences. A program of geophysics, mapping, and drilling has been initiated.

A molybdenum bearing intrusive in Northern Nevada was investigated by the Syndicate. One deep drill hole was completed and returned generally low values. Any future exploration would likely be conducted under a farm-out arrangement.

A comprehensive program of mapping, geophysics, bulldozer trenching, and drilling was undertaken on an Idaho silver project. Although overall silver assays were low it has been decided to retain some of the original property acquired by option and by staking.

Drilling was conducted on a California gold-silver prospect, the option upon which was subsequently dropped.

A Nevada tungsten property with a previous production record was investigated but no further action was taken.

The four financing participants of the Cordex Syndicate, and each funding 25 per cent of the exploration budget, are Rayrock, McIntyre, Lacana, and Dome Exploration (Canada). Manager of the Syndicate since its inception in 1970 is Mr. J. S. Livermore of Reno, Nevada.

IBERIAN EXPLORATIONS SYNDICATE

Your Company is a participant in the Iberian Explorations Syndicate recently formed to conduct exploration in southern Spain for a period of three years. Contributing equally to the annual budget of \$500,000 are Camflo Mines, Mattagami Lake Mines, Siscoe Metals of Ontario, and Rayrock Mines. The Syndicate Manager is Stanley W. Holmes and Associates.

Actual field work commenced last September, and has consisted of geological mapping and geochemical surveys on each of four exploration concessions which have been acquired. Situated along the Penarroya lead-zinc-silver belt, these permit areas cover numerous old mines and workings dating from the Romans to the early 1900's. Of importance is that no modern exploration techniques have been carried out along this particular belt and, even more significant, is that some of the mine workings are known to

RAYROCK MINES LIMITED

have bottomed in mineralization of potential ore grade. The initial surface exploration is concentrating on defining lateral extensions of known veins and locating possible repetitions. At a later date exploration will probably call for testing of mineralized zones below the shallower mine excavations.

The greater part of the Syndicate budget will be spent on diamond drilling and commencement of this phase has just begun.

Based on the wealth of data obtained from the government, and on the sampling of the numerous dumps and rejects throughout the Penarroya Belt, it is apparent that very high grade silver-lead-zinc ore has been mined in the past. The average width of the veins is in the order of 6 to 10 feet, while lengths of 3,000 to 8,000 feet are not uncommon. The Penarroya Belt is regarded as one of the more attractive silver provinces in Europe.

RAYROCK-RYOWA JOINT VENTURE

a) REGIONAL EXPLORATION PROGRAM

During the 1977 field season the Rayrock-Ryowa Joint Venture conducted a reconnaissance uranium exploration program over a large portion of an 8,500 square mile region of the Northwest Territories. Three groups of claims were staked to cover radioactive occurrences discovered during the course of geological mapping and scintillometer survey. Additional work has been recommended for two of the claim groups.

The 1978 regional program will concentrate on six specific areas, four of which have been designated for detail investigation. Selective airborne scintillometer coverage will be employed.

Rayrock, the operator of the Joint Venture, is contributing 25 per cent of exploration expenditures for a 35 per cent working interest. The Ryowa Uranium Development Corporation of Japan is providing 75 per cent of the exploration budget.

b) URANIUM PROSPECTS OPTIONED

Two properties in the Marian River region of the Northwest Territories were optioned by the Joint Venture during 1977.

Exploration of one of the acquisitions disclosed that the radioactive zones lacked continuity and the option will be dropped.

Investigation of the other is incomplete and additional work will be undertaken.

A winter surface drill program was conducted by the Joint Venture on a property optioned in 1976 from Crestland Mines, since merged into Pyx Explorations Ltd. A total of 2,190 feet over nine holes was completed on the claims, known as the Sun-Rose Group, and located 80 miles northwest of Yellowknife. One half of the drill investigation was in the vicinity of old mine workings, but only minor uranium values were encountered. The other holes tested geophysical and geochemical anomalies along a major fault structure; results were disappointing.

During the 1950's the original claims of the Sun-Rose Group were subject to detailed surface exploration which led to underground development. Prior to the underground work being aborted by a surface plant fire, a small tonnage of good grade uranium mineralization had been disclosed.

PINSON PROJECT

An update of an earlier production feasibility study would undoubtedly be commissioned in the event the price of gold approaches \$200 an ounce and demonstrates a reasonable period of price stability. A 1975 report estimated capital requirements for a 300,000 ton per year conventional cyanide processing plant at \$11 million; today this would be significantly higher.

Reserves on the 20 per cent owned Pinson property in northern Nevada are calculated at 1,747,000 tons averaging 0.15 ounces gold per ton. Recoverable by open pit mining this tonnage would necessitate an overall stripping ratio of 5.3 tons of waste to 1.0 ton of ore.

During 1977 a modest drilling program for assessment work credits added an additional 150,000 tons of similar grade to the Pinson reserves.

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The Pinson Project also owns a lower grade deposit lying some 13 miles away. Drill indicated reserves amenable to surface extraction are 1.2 million tons grading 0.08 ounces gold per ton.

Other participants in the Pinson undertaking are Lacana Mining Corporation, International Mogul Mines, United Siscoe Mines, and Cordilleran Exploration of Reno, Nevada.

WISCONSIN BASE METALS PROJECT

During 1977 the Joint Venture comprised of Rayrock Mines, Inc., (60%) and Redstone Resources Inc. (40%), financed an airborne geophysical survey over an area in Forest County, Wisconsin, where some 23,000 acres of mineral reservations had been acquired. Selective reconnaissance ground geophysics was also undertaken. Several top priority anomalies were located, and subsequent to the year end, a lease and exploration proposal by a major U.S. mining company was accepted.

Applications are on file for prospecting permits on approximately 27,000 acres of federal and county lands in Forest County, and in general located between the joint venture mineral rights and Exxon's major copper-zinc discovery.

NEW BRUNSWICK URANIUM PROJECT

Rayrock has optioned a 207 claim uranium prospect situated near Fredericton, New Brunswick.

Acquisition was prompted by the presence of uranium mineralization in a favourable geological environment.

Geochemical surveys have been completed on a portion of the claim block, and a drill program will be initiated in April of this year.

NORITA QUEBEC MINES LIMITED

Rayrock owns a 14 per cent direct and 10 per cent indirect equity in Norita Quebec Mines Limited which has been receiving, since early 1976, mining royalties from Orchan Mines. Norita Quebec has a 25 per cent net profits interest in the Norita mine after recovery of preproduction expenditures by Orchan, and Norita also receives 25¢/ton on the first 2 million tons of ore milled.

For the years 1976 and 1977 total tonnage milled by Orchan's Norita Division was 534,972 dry tons of zinc-copper-silver ore. Drill indicated reserves at commencement of operations were 1.9 million tons grading 6.4% zinc, 0.6% copper plus some gold and silver after allowance for dilution.

Recent drilling by the operator, Orchan Mines, from the Norita bottom mine level has indicated a higher grade extension of the main mineralized zone. Thirteen drill holes fanned from two stations indicate 760,000 tons averaging 2.4% copper, 6.3% zinc, 1.3 ounces silver, and .03 ounces per ton gold, all before dilution. True widths vary from 10 to 50 feet. The zone is open on strike and to depth.

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Consolidated Statement of Earnings and Retained Earnings

For the Year Ended December 31, 1977

	1977 \$	1976 \$
Revenue		
Revenue from petroleum operations	1,643,655	1,298,349
Investment income	253,711	165,879
	<u>1,897,366</u>	<u>1,464,228</u>
Expenses		
Cost of petroleum production	812,906	680,911
Administrative and general	175,765	164,958
Depreciation and amortization	256,120	100,172
	<u>1,244,791</u>	<u>946,041</u>
Earnings before the undernoted items	652,575	518,187
Exploration expenditures (note 1(d))	293,445	313,447
	<u>359,130</u>	<u>204,740</u>
Provision for (recovery of) income taxes (note 1(c))		
Current	(12,474)	(12,000)
Deferred	90,000	63,000
	<u>77,526</u>	<u>51,000</u>
	<u>281,604</u>	<u>153,740</u>
Share of loss determined by the equity method	3,354	30,439
Income before extraordinary items	278,250	123,301
Extraordinary items (note 5)	(12,906)	(71,887)
Net earnings for the year	265,344	51,414
Retained earnings — beginning of year	470,351	418,937
Retained earnings — end of year	735,695	470,351
Earnings per share before extraordinary items	\$0.06	\$0.03
Earnings per share for the year	\$0.06	\$0.01

RAYROCK MINES LIMITED

Consolidated Balance Sheet

ASSETS

	1977 \$	1976 \$
Current assets		
Cash	103,655	2,776
Short-term deposits	1,250,000	1,050,000
Accounts receivable and prepaid expenses	202,014	167,417
Income taxes recoverable	28,354	—
Unexpended exploration advances	143,000	—
	<u>1,727,023</u>	<u>1,220,193</u>
Investments and advances (notes 1(f) and 2)	<u>2,804,277</u>	<u>2,986,808</u>
Oil and gas properties		
Petroleum and natural gas leases — at cost, less accumulated depletion (1977 — \$1,012,036; 1976 — \$799,557) (note 1(e))	1,849,940	1,636,344
Well equipment — at cost, less accumulated depreciation (1977 — \$189,196; 1976 — \$179,558) (note 1(e))	26,783	36,391
	<u>1,876,723</u>	<u>1,672,735</u>
Mining properties		
Mining claims — at cost	25,002	25,002
Interest in net assets of the Icon Sullivan Joint Venture — at estimated realizable value	53,766	65,642
Mine buildings and equipment — at cost, less accumulated depreciation (1977 — \$38,609; 1976 — \$18,000) (note 1(e))	111,794	211,772
	<u>190,562</u>	<u>302,416</u>
Other assets		
Head office furniture — at cost, less accumulated depreciation (1977 — \$19,495; 1976 — \$18,037) (note 1(e))	5,833	6,379
Leasehold rights — at cost, less accumulated amortization (1977 — \$4,626; 1976 — nil)	10,794	15,420
	<u>16,627</u>	<u>21,799</u>
	<u>6,615,212</u>	<u>6,203,951</u>

as at December 31, 1977

LIABILITIES

Current liabilities

Bank indebtedness (note 3)	84,468	163,862
Accounts payable and accrued liabilities	77,730	87,785
Promissory notes payable	143,000	—

1977
\$

1976
\$

305,198

251,647

Deferred income taxes (note 1(c))	549,000	459,000
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854,198

710,647

SHAREHOLDERS' EQUITY

Capital stock

Authorized — 5,000,000 shares of \$1 par value each		
Issued and fully paid — 4,460,000 shares (note 4(b))	4,460,000	4,460,000

Contributed surplus (note 4(a))	621,456	619,318
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Retained earnings	735,695	470,351
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5,817,151

5,549,669

Purchase of capital stock (note 4(a))	56,137	56,365
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5,761,014

5,493,304

SIGNED ON BEHALF OF THE BOARD

G. T. SMITH, Director

W. J. WHELAN, Director

6,615,212

6,203,951

RAYROCK MINES LIMITED

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1977

	1977 \$	1976 \$
Source of working capital		
Current operations —		
Earnings for the year before extraordinary items	278,250	123,301
Add: Items which did not require the use of working capital —		
Deferred income taxes	90,000	63,000
Share of loss on equity method	3,354	30,439
Depreciation and amortization	256,120	100,172
(Gain) loss on sale of investments	(66,683)	14,230
Loss on sale of mine equipment	24,776	21,640
	<u>585,817</u>	<u>352,782</u>
Proceeds on sale of investments	369,664	422,796
Proceeds on sale of equipment	46,583	21,791
Share of proceeds on sale of Icon Sullivan assets	11,876	50,488
Proceeds on sale of capital stock	12,176	—
Other	1,030	19,821
	<u>1,027,146</u>	<u>867,678</u>
Use of working capital		
Purchase of equipment	912	15,576
Purchase of leasehold rights	—	15,420
Additions to oil and gas properties	433,251	184,247
Purchase of capital stock (note 4(a))	9,810	11,742
Investments and advances	127,094	260,689
Share of mine shut-down expense of Icon Sullivan Joint Venture	—	27,063
Reclassification of current assets of Icon Sullivan Joint Venture	—	19,032
Advances to officers and employees — net	2,800	—
Reclassification of advances to officers and employees	—	82,900
	<u>573,867</u>	<u>616,669</u>
Increase in working capital	453,279	251,009
Working capital — beginning of year	968,546	717,537
Working capital — end of year	<u>1,421,825</u>	<u>968,546</u>

RAYROCK MINES LIMITED

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1977

1. Accounting policies

The accounting policies of the company are in accordance with generally accepted accounting principles and the significant policies are outlined below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Rayrock Mines, Inc.

(b) Translation of accounts of foreign subsidiary company

The accounts of the wholly-owned U.S. subsidiary are translated into Canadian dollars at the following rates:

Current assets and liabilities at December 31 exchange rates;

All other assets and liabilities at the exchange rates prevailing when the assets were acquired or the liabilities assumed.

(c) Income taxes

The company follows the tax allocation method of accounting whereby the provision for income taxes is based upon income reported in the accounts.

(d) Exploration expenditures

Costs incurred in exploring for minerals are charged to expense in the year incurred.

Costs incurred in exploring for oil and gas, including participations in joint ventures, are capitalized until completion of the particular exploration programme, at which time the costs of dry holes are written off. Acquisition costs of oil and gas properties and the costs of drilling and equipping successful wells are capitalized.

(e) Depreciation and depletion

Depreciation is provided on a declining balance basis at rates sufficient to amortize the cost of these assets over their estimated useful lives, which are as follows:

Head office furniture	20%
Oil well equipment	4%-30%
Mine buildings and equipment	20%

Depletion of oil and gas properties and drilling costs is determined on the unit-of-production method based on proven reserves.

(f) Investments

The investment in shares of Discovery Mines Limited, an effectively controlled company, is carried at cost adjusted by the company's share of the earnings or losses since effective control was acquired.

Other long-term investments are written down when there is evidence that their inherent worth has declined below their carried value.

2. Investments and advances

(a) This item comprises:

Shares —

Investment in shares of Discovery Mines Limited (43.5% owned) accounted for by the equity method (quoted market value 1977 — \$901,680; 1976 — \$693,600)

1977	1976
\$	\$

826,272	830,656
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Other listed shares — at cost (quoted market value 1977 — \$1,080,091; 1976 — \$956,445)

1,262,870	1,291,319
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Other shares (unlisted or escrowed) and debentures — at cost, less amounts written off

434,398	608,446
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2,523,540	2,730,421
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Advances —

Discovery Mines Limited

148,998	101,561
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Mortgages receivable from officers and employees (note 2(c))

96,500	92,500
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Less: Current portion (included in accounts receivable)

(10,800)	(9,600)
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Other

46,039	71,926
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280,737	256,387
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2,804,277	2,986,808
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RAYROCK MINES LIMITED

2. Investments and advances (continued)

- (b) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.
- (c) The mortgages receivable from officers and employees bore interest at the rate of 2% per annum and are scheduled for repayment at \$900 per month.

3. Security for bank loans

Certain producing natural gas properties are pledged as security for the bank indebtedness.

4. Purchase of capital stock

- (a) During the year the company purchased 12,000 of its own shares at a cost of \$9,810 (1976 — 18,000 shares for \$11,742). The company also disposed of 13,000 of its own shares for proceeds of \$12,176 (1976 — nil) which exceeded cost by \$2,138. This excess was credited to contributed surplus.
- (b) Incentive stock options for 40,000 shares were outstanding at December 31, 1977, exercisable at a price of \$0.90 per share. The options expire on July 28, 1980.

5. Extraordinary items

	1977	1976
	\$	\$
Share of mine shut-down expenses net of gains or losses on sale of fixed assets of Icon Sullivan Joint Venture	(12,906)	(96,757)
Proportion, on an equity basis, of other extraordinary items reported by Discovery Mines Limited	—	24,870
	<u>(12,906)</u>	<u>(71,887)</u>

6. Remuneration to directors and senior officers

- (a) Directors and senior officers, as defined in the Business Corporations Act (Ontario), received direct remuneration in the year ended December 31, 1977 of \$176,447 (1976 — \$138,362).
- (b) The company pays substantially all the remuneration of directors and senior officers, as defined in the Business Corporations Act (Ontario) of certain associated companies and is reimbursed by these companies for their proportionate share thereof.

7. Income taxes

The wholly-owned U.S. subsidiary has loss carry-forwards for U.S. income tax purposes of approximately \$552,000 which expire in varying amounts up to 1984.

8. Contingent liabilities

The company is one of the defendants in a \$2,000,000 lawsuit which has commenced in the Superior Court of Quebec by certain Cree Indian bands in northwest Quebec relating to an alleged environmental problem, arising out of a joint venture operation in which the company has a 23.75% interest. The other defendants are Kerr Addison Mines Limited, Newmont Exploration of Canada Limited and Gunnex Limited. In the opinion of legal counsel for the company, it is not possible to predict the outcome of this action.

9. Anti-inflation

The company is subject to restraints of dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

10. Reclassification

Certain figures in the 1976 financial statements have been reclassified to conform to the presentation adopted in 1977.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Rayrock Mines Limited as at December 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Rayrock Mines Limited of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the subsidiary.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 15, 1978

COOPERS & LYBRAND
Chartered Accountants

